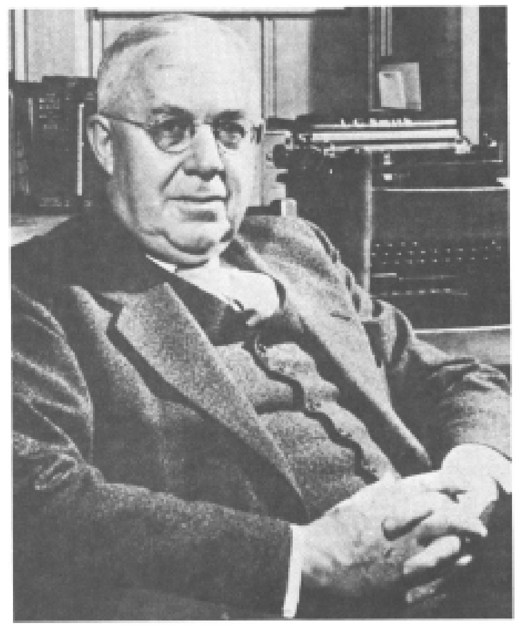
REMARKS AT BLUE HILL NEIGHBORHOOD CREDIT UNION
May 13, 1934

By Edward A. Filene

It is an interesting coincidence that the year 1921, when your credit union came into being, we organized the Credit Union National Extension Bureau for the purpose of extending credit unions throughout the United States. I had come across cooperative credit first in Germany. Thereafter, in 1907, I investigated credit unions in actual operation in various parts of the world, and satisfied myself that there is something of very great value in the credit union plan of handling short-term credit on a cooperative basis. I therefore cooperated with the Bank Commissioner in Massachusetts in 1909 to get a credit union law enacted for this state, and we carried on a considerable experimentation in Massachusetts, in an effort to successfully Americanize this German conception of cooperative credit. While our work was interrupted by the way, it seemed to me by 1921 that we were ready to go ahead, and I organized and have since financed, through the Twentieth Century Fund, the Credit Union National Extension Bureau, which has been managed with greatest ability and greatest devotion by Roy Bergengren.

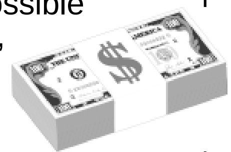
The Bureau has had first the job of getting credit union laws enacted, and as you know, there are now credit union laws in 38 states and the District of Columbia. Next we have carried on a considerable experimentation to find types of credit unions capable of rapid mass development, having in mind that it is our eventual purpose to bring cooperative



Roy F. Bergengren (1879-1955), first managing director of the Credit Union National Association.

credit to the masses of the people, and that we are thinking in terms of at least one hundred thousand credit unions in the United States. There are now approximately 2,400 credit unions in over fifty well-defined varieties. They have approximate membership of a half million members and approximate resources of better than fifty million dollars. More important than membership and assets is the fact that the credit unions have weathered the industrial depression in extraordinary fashion.

Your own credit union, operating with a more or less open charter, among people who have been very hard hit by the depression, is the best possible evidence of the skill, courage, ingenuity and faithful effort which has been given unstintingly to credit union direction during the depression. I want to congratulate you. And I know you will all join with me in congratulating your officers, not merely for their faithfulness, but for their competence in conducting your bank through these trying years which have proved too much for so many of America's financial institutions.



I know, however, that you do not want me to come here merely to express congratulations. Nor do you want me to take your time in telling about the present growth of the credit union movement throughout the United States.

Such a growth at any time would, of course, be very pleasing to all of us; but that it should have occurred during the greatest of all financial depressions is far more significant.

We must not put too much faith, however, in the mere rate at which we are growing. If there is not a very definite economic reason for our growth—if it were due, for instance, simply to the efficiency of our organizers—we might become ever so large without becoming very important.

But the credit unions stood up when so many banks fell down for a very definite reason; and it was not, I want to emphasize, the reason which is most likely to be advanced.

It was not because our financial system had been wrong.

It was because it had been right — so right that it became very successful — and because our bankers continued a system which had been right, instead of observing the changing times and discovering why the old system would no longer do.

It is critically important that credit unionists shall understand this. For our practices, also, have now been tested by experience and have proven to be successful practices; and the greatest danger confronting credit unionists today is that we, too, shall continue those practices which, in the past, have proven so successful; instead of studying the times to ascertain just what practices are called for now.

For the times are still changing. They are changing more rapidly than they have ever changed before. And one of the ways in which they are changing most has to do with the way in which it is possible for people to be thrifty.

We can no longer be thrifty by continuing the old habits of thrift. To preserve our credit union principles, we may now find it necessary to break with many credit union habits.

To save successfully now, we may have to learn to spend, and even to spend in such a way that it will look like extravagance.

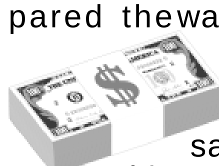
This may sound mystifying. Actually, it isn't. It is confusing only to those who think of money as wealth, and it is a first principle of political economy that money is not wealth.

Money is just a medium of exchange. Let us keep that in mind, and there is no reason why we should be mystified.

But we do not keep it in mind — even we credit unionists.

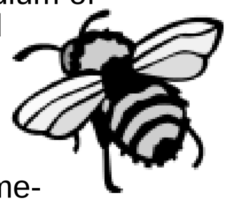
When we have advocated thrift in the past, for instance, where have we gone for our examples?

You know. We've gone to the bees. I've done it myself. I have compared the way that the bees store up honey for the winter with the way that a workingman, if he is thrifty, saves up money for his old age.



And the simile is all wrong. No human being saves, or can save money, in the way that the bees save honey.

For money isn't honey. Money isn't wealth — which honey is, at least to a bee-and honey isn't a medium of exchange either in our world or in the insect world.



Then we have pointed to the way in which the squirrels store up nuts.

Nuts! They aren't a medium of exchange either. When we save our pennies, we enter into an entirely different kind of transaction.

The only way in which human beings can save successfully is through the using of that which they do not consume.

I am not speaking merely about the present; for this applies to our fathers and our grandfathers quite as much as it does to us. To be sure, they also might lay up a store of food for the winter, for their own use, but they couldn't lay up much food for their own use twenty or thirty years ahead. What they really did when they set out to save money, was to enter into a transaction whereby other people could eat the food which they raised; and, in all probability, eat it pretty soon.

If they were farmers, at least, they did not store up all their products for their own use, in the way that bees store honey or squirrels store nuts. They deprived themselves of a part of it, and sold it, so that someone else could eat it.

Who ate it? The chances are that some working man ate part of it. But the farmer probably did not trade it directly for something which the workingman had. The workingman might have been a structural iron worker, and the farmer wasn't planning to build any steel buildings; and even if he had been, this workingman probably lived in some city a thousand miles away and he couldn't get him to come to his farm.

What really happened was that the farmer sold this food for money, and then he either saved the money or spent it for something which he wanted to consume.

Now there are several ways, theoretically, in which he could save that money. He could put it in a bank or he could put it in an old sock. The bank might not be absolutely safe, but neither was the sock. Moreover, if he put it in the bank, the money might draw interest; whereas, it he put it in the sock, he couldn't possibly draw out more than he put in. Perhaps he did not put it in either place. Perhaps he spent the money, not for something which he wanted to consume, but for some farm machinery which would enable him to produce a bigger crop, with less trouble, the following year, so that he could eat more and still sell more and save more than before. Or he might even have invested the money in buying more land, with the same general object in view; or he might have bought some stock in a factory or business enterprise. But to understand the process, we should notice not merely what became of the money but what became of the crop which he sold for money.

The chances are that that crop was eaten that very year. The chances are it wasn't saved at all in any way in which the term was understood.

And the crop was real wealth, although the money wasn't. What was it, then, which was really saved?

Well, the process isn't hard to understand. The only successful way of saving at the time was through some process by which that which was saved would certainly be used by somebody, and something given in exchange.

It seemed to the farmer, of course, that money was always given in exchange. But that's absurd. For money is only a medium of exchange; and it the only exchange which has occurred is the exchange of real wealth for something which isn't wealth, the man who lets go of the wealth must get stuck.

Whoever ate that food, then, we may be pretty sure that somebody paid for it and paid something real and not mere money. The man who bought the food, to be sure, might have stolen the money;

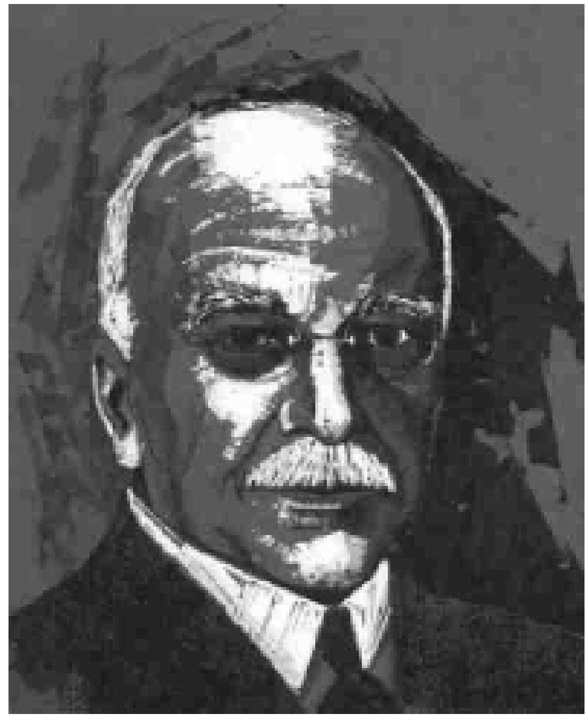
but in that case, the man he stole the money from would seem to have paid for it. The food might have been eaten by someone who inherited a fortune, and never gave society a single thing in return for that fortune; but in that case, those whose labor actually created the wealth represented by that fortune actually paid for that food if they didn't eat it.

The great majority of people, at least, cannot get food without giving something in exchange; and the chances are that they give their labor or services. They do not, however, give this directly to the person who raises the food. That structural iron-worker, for instance, gave his services to those who were benefitted by the building which he helped to build; and with the wages which he received, he bought that food from that thrifty farmer, along with other necessities and comforts of life.

If he hadn't eaten food, he couldn't have helped build that building. If the farmer had eaten everything he raised, he couldn't have had any part in building it. And if all the food-raisers, as a whole, had made a practice of consuming all that they produced, no new buildings, no factories, not even any farm machinery could have resulted.

Something, therefore, was surely saved, although it wasn't money and it wasn't the food. By virtue of this process of exchange, more wealth had come into existence than there was before. This wealth, to be sure, was created by human labor and human services, but it could not have been created unless there were some system by which people could exchange the services they were equipped to give for the services which they wanted from others.

The use of money simply facilitated this exchange; and made it possible for us to exchange our services with millions of people whom we never knew or never saw. That was the only legitimate use of money. By this legitimate use of money, however, we could not



Edward A. Filene

only exchange our services for things which we wanted to consume this year but for things which we might wish to consume in years to come—things, in fact, which would not be produced for many years to come.

Although this process was not a bit like storing up nuts for the winter, it was a vastly more successful process, and it was a process upon which we could bank.

It was the process, in fact, upon which we did bank—upon which we did our banking. We built factories and invented and manufactured and distributed more and more machinery; and we employed more and more of our manpower, year after year, not in the production of things to be consumed that year, but in the building up of industrial system by which, in the end, we could produce many times as much as we used to produce; and yet, at the same time, consume more than we had ever been able to consume before.

No bees or squirrels ever developed

anything like that. They have to work as hard as they ever worked, and they have to work as many hours a day. If they inaugurated a six-hour day and raised their standard of living too, it would go hard with them next winter. But in America, for fifty years, we kept on producing more, as a rule, than we had produced the year before, consumed more than we had consumed before, worked fewer hours than we had worked before and saved more than we had found it possible to save before. There were ups and downs, to be sure, but the trend was generally up.

Then something happened, and we found we couldn't bank on the system any longer. Our banks tried to but they failed. Our industries failed. We couldn't use the machinery we had built up. We knew more about it than we ever did. We knew how to run it; and we knew, if it were running, that the masses could live on an almost undreamed-of scale of luxury. Nevertheless, although nobody wanted to do anything of the kind, we shut down the machine, we discharged millions of workers, sending them out to look for jobs which could not be found, and rendered the bulk of our business ventures so profitless that they could no longer pay dividends; and we lost, to a large extent, the money which we invested and even that which we put in the banks.

The credit unions, to be sure, stood up amazingly. If we can only understand what really happened, we can understand why they stood up; but if we aren't very careful in our observations, we too are likely to fall into a trap.

America had built up the machinery of production—that is all—to a point where it could no longer be successful, and no longer bring a return upon money invested in it, unless we made definite plans for the consumption of its products.

When we were producing very little, ironical as it may seem, it was wise not to consume all of that little, but to save some of it to invest in more efficient methods of production. Now that we were able to produce so much, however, one of two things had to happen. We either had to buy and consume according to the capacity of industries to produce, or we had to shut down our industries. To save now, we had to spend; and the idea seemed preposterous. No matter how seemingly preposterous it was, however, it was the truth. Our farms and our industries alike could not be prosperous unless they could sell their products. These products, obviously, could not be sold unless they were bought; and there was so much now which had to be bought that only the masses of the people could consume them; which meant that the masses must not only be provided with money but that they must learn to spend it for things they wanted to consume.

In the Nineteen-Twenties, the masses had been consuming more than they had ever consumed before and many therefore said they were extravagant. What they overlooked was that as a Nation we were investing more and more of our human efforts, not in the production of things to be consumed, but in the process which had once been the process of saving — that is, the building up of the machinery of production.

That process simply could not go on forever. There had to come a time when we would be producing so much more than we could sell that, unless we made definite provisions for enormously greater mass-buying, savings invested in more schemes for production would certainly be lost.

That, incidentally, is why we had to have a New Deal and a definite, nation-wide plan to equip the masses with more buying-power. That is why it has become a business necessity to pay higher wages as better methods of production are introduced. But I am not discussing that. I am thinking of the situation from the standpoint of the credit unions.

The credit unions made a most astonishing showing when the depression struck. And they did this, very largely, because they were not committed to a system. They had organized to meet a very definite need, and they had met it. The regular banking system, sound and successful as it had been, had overlooked this need of the average person for small loans. Their very success had taught them to demand a certain kind of security; while this perfection of the mechanism of production, without any definite arrangement for a corresponding increase in mass-consumption, had rendered that customary type of security insecure.

The credit unions had not demanded that type of security at all, and their members could not furnish it anyway. But they had found a better security yet. They made it a rule to lend only where the loans would surely be useful to the borrower, and then to do everything they could to enable the borrower to repay the loans. So they went in, for one thing, for the lowest practicable rate of interest; and they banked on character and cooperation, and the kind of character that results from cooperation. They helped the sick get well — and strong enough to repay the debt; and because they made it so plain that the borrower and the lender were one, they avoided the kind of banking which was being done in those circles where borrowers and lenders did not realize that their interests were identical.

But it would be too much to expect of credit unionists that they should all clearly see the great change that had come over human society, and of which almost none of our leading financiers had any comprehension.

When it came to the investment of credit union funds, the credit unionists were often inclined to act like our most conservative bankers.

And right there, it seems to me, is the greatest danger which confronts credit unionism today. If we really understand what has been happening, I think, we shall go in more and more for investment, not in production but in consumption; and we will insure our savings by using them for buying the things which credit union members want to consume.

Just as true saving, during the greater part of the past fifty years, consisted not of hoarding money nor even of laying it aside for future use, but of having it used in the building of better equipment for production, so true saving now will largely consist of increasing consumption and increasing buying-power to a point which will make it possible for us to operate this machinery profitably.

The credit unions, I think, may well set an example, then, in saving by spending. You all have to buy a certain amount anyway; and if by cooperation, you can buy more things with the same money, you will not only be directly bettering your own position, but you will be increasing the volume of consumption, creating employment, and contributing to a process which will inevitably bring on better times and enable everybody to buy on a larger scale.

I do not think credit unionists should make a practice of buying on the installment plan. I think they would find it less expensive, and therefore they would be able to buy more and save more, if they were to borrow the cash from their credit unions and buy with that. Not that I think the installment system is a bad system; but their rates have to be made with reference to the number of buyers who do not pay their regular installments; while credit unions can charge low rates because their members do repay their debts.

In the old days, when people thought of cooperating to save expenses, their first thought was to establish some cooperative industry. Usually, in America, it wasn’t a very good thought. No little group could save anything on automobiles by starting an automobile factory; and there was always a doubt as to whether their little cooperative laundry or restaurant would turn out better than any other laundry or restaurant.

Cooperation in spending, however, is another matter. It doesn't necessarily involve buying in wholesale lots. I am thinking, rather, of cooperation in finding the best values, in developing the art of successful shopping, in increasing the buying-power of the consumer's dollar by seeing to it that each dollar gives all the buying-service which it can.

We are in a new age, and it is the age of the consuming masses. We have practically solved the problem of production; for we have learned how the good things of life may be produced so abundantly that everybody can theoretically have an abundance. Our problem now is to get that abundance to everybody; and it is an urgent problem because, if it is not solved, our whole wonderful machine falls into disuse and everybody suffers.

It is in such a world that the credit unions have risen and promise now to become an important financial factor. The problem is one of exchange, and exchange is primarily a matter of the use of money. You have learned something about that — and some very important principles which our great financiers did not know. Your success in the future, however, does not depend upon your faithfully following all the formulas which have been successful in the past. It depends, rather, upon your learning what is really happening to civilization and how money may best be saved, through being used and spent, in the days which are ahead of us.